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The Secure Act 2.0

The breaking news in wealth planning is that Congress passed the Consolidated Appropriations Act of 2023 at the end of last year. Part of the 4,000+ page spending bill includes the highly anticipated Secure Act 2.0.
Most provisions help the average American save and fund retirement and do not include significant tax increases. The Act is extensive, and here are some of the more salient provisions.

Changes to Required Minimum Distributions (RMD)

The RMD age increases from 72 to 73 starting this year. If a retirement account holder turns 72 in 2023, their first RMD is in 2024 when they turn 73. The RMD age will rise from 73 to 75 in 2033. Most retirees withdraw more than their RMD to maintain their standard of living and increasing the RMD age is not necessarily a benefit. The increase in the RMD age likely benefits those who can fund retirement without withdrawing from their retirement accounts.

Late penalties for not taking the full or partial RMD amount were reduced from 50% to 25% on the remaining RMD balance. In some cases, the penalty may be reduced to 10%.
This provision relieves those who either miscalculate or forget to take their RMD.

Encouraging Use of The Roth

One of the benefits of a Roth IRA is that the owner is not required to take distributions. However, employees or former employees who have a Roth in a qualified plan, such as a 401(k) or 403(b), are required to take RMD. Fortunately, the Secure Act 2.0 eliminates RMD for in-plan Roths. Another provision allows for those who qualify, mainly self-employed taxpayers, to open a SIMPLE Roth IRA and SEP Roth IRA. Previously only the pre-tax option was available.

Employers can now deposit matching and nonelective contributions to employees' designated Roth accounts. These amounts will, of course, be included in the employee's income in the year of contribution.
Catch-up contributions, for those age 50 or older and making more than $145k a year, are required to be deposited in a Roth account. The Roth contribution makes the catch-up subject to income tax. This is a revenue-raising measure that likely offsets some costs of other provisions.

For clients who have overfunded a 529 plan, there is a provision allowing a one-time $35,000 transfer to a Roth IRA that is owned by the 529 beneficiary. The 529 must be more than 15 years old and there are several other restrictions to this one-time transfer. It is likely more advantageous to avoid overfunding a 529 or make the account a legacy education funding mechanism for future generations.

Retirement Account Catch-Up Contributions

The Secure Act 2.0 indexes catch-up contributions for retirement account holders over the age of 50. The catch-up contribution for 2023 is $7,500. This is in addition to the allowable employee deferral amount of $22,500, for a total of $30,000. Another provision in the Act increases the catch-up contribution for those between the ages 60-63. The catch-up for this age group raises from $7,500 to the greater of $10k or 150% of the regular contribution. The catch up for a retirement account holder ages of 60-63 this year is $11,250, 150% of $7,500.

Emergency Fund Provisions

The Act allows for several new scenarios where a retirement account owner may withdraw penalty free before the age of 591/2. If you are considering an early withdrawal, please reach out to your wealth manager to see if your situation is exempt from the penalty.

Employees enrolled in a qualified plan that is not considered 'highly compensated' will now have access to an 'emergency fund' account that is linked to their plan. The linked account is funded with pre-tax dollars and is capped at $2,500. The funds may be held in cash or interest-bearing cash equivalents.

Changes to Qualified Charitable Distributions (QCD)

The QCD limit of $100,000 a year will now be indexed with inflation. The Act allows for a one-time opportunity to fund a split-interest vehicle such as a Charitable Remainder Trust (CRT) or Charitable Gift Annuity (CGA) with a $50,000 QCD.

The one-time opportunity includes a few restrictions that make this option less appealing. Note that QCD may begin at age 701/2 and are not subject to changes in RMD age.

Student Loan Relief

Effective 2024, employers can allocate the qualified plan match to help pay for an employee's student loans. Treating student loan payments as elective deferrals for employer matching purposes allows student loan borrowers to benefit from an employer match even if they can't afford to contribute to their retirement plan.

Note that the Consolidated Appropriations Act of 2023 does not include the IRS's attempt to define Inherited IRA distribution rules for non-eligible beneficiaries. These rules are expected to be enacted in the first half of this year.